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SUBJECT: AFGHAN CUSTOMS REVENUE DECLINING

REF: KABUL 4447

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1.(SBU) SUMMARY: Afghan Customs revenue collection fell 1.1% for the period July-August-September from the previous quarter. The decline was largest in the South, reflecting security problems there. Building new customs posts closer to the border could increase customs collections, but security must also be increased to protect customs posts and personnel. The Mission, through the Border Management Initiative (BMI), is working with the Afghans to build new border posts. The Western region, especially Herat Governorate, produces over 40% of customs revenue. END SUMMARY.

2.(SBU) According to data supplied by Afghanistan's Ministry of Finance, customs receipts for the period April-September 2006 were \$139 million. Revenue rose rapidly from April through June (\$19 million to \$26 million). However, collections have fallen in each subsequent month (July - \$24 million, August - \$23 million, September - \$21 million). Grouping the data by quarters (April, May, June and July, August, September), customs revenue declined 1.1% over the summer months.

3.(SBU) Subdividing the data by region (Kabul, north, east, south, and west), the western region, particularly Herat Governorate, produced 41% of all customs revenue during this period. The proportion of revenue collected in the other four regions was - Kabul: 7%, North: 17%, East: 19%, and South: 16%. Quarterly customs revenue growth occurred in the Eastern (10.2%) and Western (1.6%) regions, but declined in the Kabul (-2.6%), Northern (-0.8%), and Southern (-18.3%) regions.

4.(SBU) Director General for Customs Jalil Ahmed told Acting ECON Counselor and EXBS advisor recently that security for customs posts remains the key to increasing customs revenue. He related that his customs inspectors at the Spin Boldak border crossing (in Kandahar

province) are afraid to find weapons or other contraband during searches. He added that three inspectors had recently been kidnapped on the road from Kandahar to Spin Boldak. In another southern province, insurgents captured seven customs officers, killed four, and took three across the border into Pakistan. Ahmed said tribal leaders went to Pakistan and threatened the insurgents with war if the three kidnapped officials were not released. He noted that all three were released immediately. Ahmed appealed for increasing the numbers of Afghan National Army (ANA) or Afghan National Police (ANP) personnel to be increased to guard his customs facilities and officers.

5.(SBU) Ahmed also cited the need to move key customs clearance buildings next to the actual border crossing points. In Spin Boldak, for instance, the customs post is 5 km from the border. Smugglers, he said, have established a virtual customs free zone, with warehouses, shops, etc., between the border and customs. Hundreds of people visit this "outlet mall" daily to buy duty free goods. Because the "free zone" operators are heavily armed, no one dares intervene in the area, he commented. EXBS Advisor and Ahmed discussed building a new customs post at the border crossing so incoming traffic could not divert to the "free zone" before reaching the current customs post. However, Ahmed stressed that such a move would necessitate a strong security presence by the Afghan Border and Customs Police supported by an appropriate ISAF presence. The EXBS Advisor is scheduling a meeting with the Director General and an ISAF representative to discuss this move.

6.(SBU) The Director General is also experiencing problems on the southwest border with Iran at the Zaranj customs post in Nimruz province. Customs officials are essentially locked-out of the border customs post because of the security problems being experienced in that region.

7.(SBU) COMMENT: The decline in customs revenue is disturbing given the strict revenue growth targets established by the IMF and the

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increasing demand for Afghan revenue to cover operational expenditures, especially if the ANA and ANP continue to grow.. Through the Border Management Initiative, the Mission is working aggressively to provide new border facilities and train customs officers. Western-educated and goal-oriented, Customs DG Ahmed seems to be the right man in the right job. However, he needs more security support, especially in the south, to get his job done. END COMMENT.

NORLAND